

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-01-11** | Period of Report: **1994-11-30**
SEC Accession No. **0000950152-95-000017**

([HTML Version](#) on secdatabase.com)

FILER

SUDBURY INC

CIK: **811801** | IRS No.: **341546292** | State of Incorpor.: **DE** | Fiscal Year End: **0531**
Type: **10-Q** | Act: **34** | File No.: **001-10023** | Film No.: **95500935**
SIC: **3360** Nonferrous foundries (castings)

Mailing Address
30100 CHAGRIN BLVD
SUITE 203
CLEVELAND OH 44124

Business Address
30100 CHAGRIN BLVD
STE 203
CLEVELAND OH 44124
2164647026

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 1994

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-10023

SUDBURY, INC.

(Exact name of Registrant as specified in its Charter)

DELAWARE

34-1546292

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

30100 CHAGRIN BOULEVARD, SUITE 203 CLEVELAND, OHIO

44124

(Address of Principal Executive Office)

(Zip Code)

Registrant's Telephone Number, including Area Code: (216) 464-7026

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: COMMON SHARES, \$0.01 PAR VALUE, AS OF JANUARY 4, 1995: 10,056,166

<TABLE>

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SUDBURY, INC. AND SUBSIDIARIES

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PART I, ITEM 1 - FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

SUDBURY, INC. AND SUBSIDIARIES

ASSETS

<CAPTION>

	NOVEMBER 30, 1994 (UNAUDITED)	MAY 31, 1994 (AUDITED)
	-----	-----
(Dollars in thousands)		
<S>	<C>	<C>
CURRENT ASSETS		
Cash	\$ 1,852	\$ 1,885
Accounts receivable, net of allowance	41,753	39,272
Inventories	19,907	18,592
Prepaid expenses and other	3,181	2,380
	-----	-----
TOTAL CURRENT ASSETS	66,693	62,129
PROPERTY, PLANT AND EQUIPMENT		
Land and land improvements	2,257	2,191
Buildings	17,196	17,163
Machinery and equipment	44,935	38,534
	-----	-----
Less accumulated depreciation	64,388	57,888
	14,875	11,450
	-----	-----
NET PROPERTY, PLANT AND EQUIPMENT	49,513	46,438
OTHER ASSETS		
Net assets of businesses held for sale	2,000	2,000
Intangible pension asset	1,359	1,359
Notes receivable and other assets	442	2,274
	-----	-----
TOTAL OTHER ASSETS	3,801	5,633
	-----	-----
	\$120,007	\$114,200

=====

=====

<FN>
See notes to condensed consolidated financial statements.
</TABLE>

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<TABLE>
PART I, ITEM 1 - FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS - (CONTINUED)

SUDBURY, INC. AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY

<CAPTION>

	NOVEMBER 30, 1994 (UNAUDITED) -----	MAY 31, 1994 (AUDITED) -----
<S>	<C>	<C>
(Dollars in thousands)		
CURRENT LIABILITIES		
Trade accounts payable	\$ 22,853	\$ 18,504
Accrued compensation and employee benefits	7,752	10,000
Other accrued expenses	12,571	11,658
Current maturities of long-term debt	2,286	2,300
	-----	-----
TOTAL CURRENT LIABILITIES	45,462	42,462
LONG-TERM DEBT	24,477	29,961
OTHER LONG-TERM LIABILITIES	13,143	12,367
DEFERRED INCOME TAXES	1,004	-
STOCKHOLDERS' EQUITY		
Common Stock - par value \$0.01 per share; authorized 20,000,000 shares; 10,388,320 (10,233,932 at May 31, 1994) shares issuable and deemed outstanding	104	102
Additional paid-in capital	21,089	20,224
Retained earnings	15,282	9,638
Minimum pension liability adjustment - net	(554)	(554)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	35,921	29,410
	-----	-----
	\$120,007	\$114,200
	=====	=====

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See notes to condensed consolidated financial statements.
</TABLE>

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<TABLE>
PART I, ITEM 1 - FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

SUDBURY, INC. AND SUBSIDIARIES

<CAPTION>

	THREE MONTHS ENDED	
	NOVEMBER 30, 1994 (UNAUDITED) -----	NOVEMBER 30, 1993 (UNAUDITED) -----
(In thousands, except per share amounts)		

<S>	<C>	<C>
Net sales	\$ 74,355	\$ 60,584
Costs of products sold	61,777	51,508
	-----	-----
GROSS PROFIT	12,578	9,076
Selling and administrative expenses	6,479	5,496
	-----	-----
OPERATING INCOME	6,099	3,580
Interest expense - net	(759)	(968)
Other income	59	162
	-----	-----
Income before income taxes	5,399	2,774
Income tax expense (benefit)	1,974	(458)
	-----	-----
NET INCOME	\$ 3,425	\$ 3,232
	=====	=====
Net income per share:		
Primary and fully diluted	\$.27	\$.26
	=====	=====
Common shares and common share equivalents:		
Primary	12,722	12,217
	=====	=====
Fully diluted	12,722	12,258
	=====	=====

<FN>
See notes to condensed consolidated financial statements.
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<TABLE>
PART I, ITEM 1 - FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

SUDBURY, INC. AND SUBSIDIARIES

<CAPTION>

	SIX MONTHS ENDED	
	NOVEMBER 30,	NOVEMBER 30,
	1994	1993
	(UNAUDITED)	(UNAUDITED)
	-----	-----
(In thousands, except per share amounts)		
<S>	<C>	<C>
Net sales	\$142,075	\$115,343
Costs of products sold	119,022	98,862
	-----	-----
GROSS PROFIT	23,053	16,481
Selling and administrative expenses	12,646	11,116
	-----	-----
OPERATING INCOME	10,407	5,365
Interest expense - net	(1,559)	(1,905)
Other income	52	439
	-----	-----
Income before income taxes	8,900	3,899
Income tax expense (benefit)	3,256	(415)
	-----	-----
NET INCOME	\$ 5,644	\$ 4,314
	=====	=====
Net income per share:		
Primary	\$.45	\$.36
	=====	=====

Fully diluted	\$.45	\$.35
	=====	=====
Common shares and common share equivalents:		
Primary	12,641	12,148
	=====	=====
Fully diluted	12,641	12,270
	=====	=====

<FN>
See notes to condensed consolidated financial statements.
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<TABLE>
PART I, ITEM 1 - FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SUDBURY, INC. AND SUBSIDIARIES

<CAPTION>

	SIX MONTHS ENDED	
	NOVEMBER 30, 1994 (UNAUDITED)	NOVEMBER 30, 1993 (UNAUDITED)
	-----	-----
(Dollars in thousands)		
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net income	\$ 5,644	\$ 4,314
Items included not affecting cash:		
Depreciation and amortization	4,239	4,156
Deferred taxes	2,359	-
Other	835	131
Changes in operating assets and liabilities	(1,583)	(2,243)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,494	6,358
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(6,713)	(3,466)
Proceeds from collection of notes receivable	100	2,249
Proceeds from sale of businesses	-	666
Contingent payments to former owners of acquired businesses	-	(188)
Proceeds from sale of property, plant, equipment and other - net	102	134
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(6,511)	(605)
FINANCING ACTIVITIES:		
Borrowings, refinancings and repayments:		
Short and long-term borrowings	140,952	117,175
Reductions of debt	(146,677)	(126,106)
Common stock issued	598	30
Tax benefit from stock option transactions	111	-
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(5,016)	(8,901)
	-----	-----
DECREASE IN CASH	(33)	(3,148)
Cash at beginning of period	1,885	5,284
	-----	-----
CASH AT END OF PERIOD	\$ 1,852	\$ 2,136
	=====	=====

<FN>
See notes to condensed consolidated financial statements.
</TABLE>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SUDBURY, INC. AND SUBSIDIARIES

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended November 30, 1994 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 1995. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 1994.

NOTE B -- INVENTORIES

The components of inventories are summarized as follows (in thousands):

<TABLE>

<CAPTION>

	November 30, 1994	May 31, 1994
	-----	-----
<S>	<C>	<C>
Raw materials and supplies	\$ 8,014	\$ 8,315
Work in process	7,996	6,995
Finished products	4,413	3,664
	-----	-----
Total at FIFO	20,423	18,974
Less excess of FIFO cost over LIFO values	516	382
	-----	-----
	\$19,907	\$18,592
	=====	=====

</TABLE>

NOTE C -- CONTINGENCIES

The Company is party to a number of lawsuits and claims arising out of the conduct of its business, including those relating to commercial transactions, product liability and environmental, safety and health matters.

All operating locations acquired by the Company since 1984 operate in a variety of locations and industries where environmental situations could exist based on current or past operations. Certain operating and non-operating subsidiaries of the Company have been named as potentially responsible parties ("PRPs") liable for cleanup of known environmental conditions. For known situations, the Company, with the assistance of environmental engineers and consultants, has accrued amounts to cover estimated future environmental expenditures. The Company has initiated corrective action and/or preventative environmental projects to ensure the safe and lawful operation of its facilities. It is possible, however, that future environmental expenditures may be more or less than accrued amounts, or there could exist unknown environmental situations at existing or previously owned businesses for which the future cost is not known or accrued at November 30, 1994.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SUDBURY, INC. AND SUBSIDIARIES

NOTE C -- CONTINGENCIES - CONTINUED

While the ultimate result of the above contingencies cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the consolidated financial position or results of operations of the Company.

Under the terms of the January 1992 employment agreement with Jacques R. Sardas, Chairman, President and Chief Executive Officer of the Company, if Mr. Sardas' employment is terminated for cause, or due to Mr. Sardas' death, disability or voluntary resignation before the end of his employment agreement in January 1996, the Company is obligated to pay to Mr. Sardas, in cancellation of his 1,764,706 stock options which are currently exercisable at \$.01 per share, the appraised value of the shares underlying the options, less the exercise price thereof. Based on the closing price of the Company's Common Stock on November 30, 1994 and assuming that such price is equal to the appraised value of the Common Stock, the obligation for the options would total approximately \$11 million. The Company is the beneficiary of a key-man life insurance policy on Mr. Sardas' life in the amount of \$14 million. The proceeds of this policy would be used to fulfill the Company's obligation in the event of Mr. Sardas' death.

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PART I, ITEM 2, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUDBURY, INC. AND SUBSIDIARIES

RESULTS OF OPERATIONS - THREE MONTHS ENDED NOVEMBER 30, 1994 COMPARED TO THREE

MONTHS ENDED NOVEMBER 30, 1993

SALES. The Company's net sales for the second quarter of fiscal 1995 increased by 23% to \$74.4 million from \$60.6 million in the prior year quarter. The Company experienced sales growth in all of its businesses, with the largest sales dollar increases coming from Wagner Castings Company ("Wagner"), which sells predominantly to the automotive industry, and from Iowa Mold Tooling ("IMT"), which sells predominantly to various construction-related markets. For the quarter, the Company was able to increase sales of existing products by \$8.1 million. In addition, sales increased by \$5.0 million from net new business and \$.7 million as a result of price increases.

GROSS PROFIT. Gross profit as a percentage of net sales was 16.9% in the second quarter of fiscal 1995 compared to 15.0% in the prior year quarter. The increase in margin rate came from higher sales volumes, improved operating efficiencies and a \$.3 million favorable difference in scrap steel prices at Wagner.

SELLING AND ADMINISTRATIVE EXPENSES. Selling and administrative expenses as a percentage of net sales decreased from 9.1% in the prior year quarter to 8.7% for the current quarter principally due to higher sales. In terms of dollars, such expenses increased by \$1.0 million due principally to: (1) a contractual bonus accrual for Jacques R. Sardas, Chairman, President and Chief Executive Officer of the Company and (2) an increase in costs associated with higher revenues.

INTEREST EXPENSE. Interest expense decreased by \$.2 million due to reductions in debt as a result of the Company's cash flow from profitability. Partially offsetting this reduction was an increase in the Company's interest rate on its bank indebtedness due to increases in the base interest rates.

INCOME TAX EXPENSE. Income tax expense in the current period of \$2.0 million (an effective tax rate of 36.6%) represented a significant increase over the prior year benefit of \$.5 million. The benefit in the prior year period was the result of a refund received from the favorable resolution of a state tax issue. During the current period the post-change net operating loss, not subject to valuation allowance, was fully utilized. The reduction in the deferred tax asset resulted in the tax expense for the period.

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PART I, ITEM 2, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUDBURY, INC. AND SUBSIDIARIES

RESULTS OF OPERATIONS - SIX MONTHS ENDED NOVEMBER 30, 1994 COMPARED TO SIX

 MONTHS ENDED NOVEMBER 30, 1993

SALES. The Company's net sales for the current six month period increased by 23% to \$142.1 million from \$115.3 million in the prior year period. The Company experienced sales growth in all of its businesses, with the largest sales dollar increases coming from Wagner, from Industrial Powder Coatings, Inc. ("IPC"), which sells predominantly to the automotive industry, and from IMT. For the quarter, the Company was able to increase sales of existing products by \$17.3 million. In addition, sales increased by \$8.4 million from net new business and \$1.1 million as a result of price increases.

GROSS PROFIT. Gross profit as a percentage of net sales was 16.2% for the current six month period compared to 14.3% in the prior year period. The increase in margin rate came from higher sales volumes, improved operating efficiencies and a \$.8 million favorable difference in scrap steel prices at Wagner. In the first six months of fiscal 1994, Wagner's margins were negatively impacted by \$.7 million due to significant price increases in scrap steel which is the principal raw material used at Wagner. In the current six month period, Wagner's margins were favorably impacted by \$.1 million due to a temporary price decrease in scrap steel in the beginning of the fiscal year.

SELLING AND ADMINISTRATIVE EXPENSES. Selling and administrative expenses as a percentage of net sales decreased from 9.6% in the prior year period to 8.9% for the current period principally due to higher sales. In terms of dollars, such expenses increased by \$1.5 million due principally to: (1) a contractual bonus accrual for Jacques R. Sardas, Chairman, President and Chief Executive Officer of the Company and (2) an increase in costs associated with higher revenues.

INTEREST EXPENSE. Interest expense decreased by \$.3 million due to reductions in debt as a result of the Company's cash flow from profitability. Partially offsetting this reduction was an increase in the Company's interest rate on its bank indebtedness due to increases in the base interest rates.

INCOME TAX EXPENSE. Income tax expense in the current period of \$3.3 million (an effective tax rate of 36.6%) represented a significant increase over the prior year benefit of \$.4 million. The benefit in the prior year period was the result of a refund received from the favorable resolution of a state tax issue. During the current period the post-change net operating loss, not subject to valuation allowance, was fully utilized. The reduction in the deferred tax asset resulted in the tax expense for the period.

OTHER INCOME. Other income in the prior year six month period of \$.4 million related principally to the receipt of miscellaneous contingent proceeds and escrows relating to the sale of assets in prior years.

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PART I, ITEM 2, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUDBURY, INC. AND SUBSIDIARIES

AUTOMOTIVE AND LIGHT TRUCK MARKETS. As approximately 60% of the Company's sales are dependent on the automotive and light truck markets in the United States and Europe, related profits will be dependent on sales of vehicles in these markets in the next twelve months.

LIQUIDITY AND CAPITAL RESOURCES

 The Company's financial position continued to improve during the first six months of fiscal 1995 as operating activities provided cash of \$11.5 million

compared to \$6.4 million in the first six months of fiscal 1994. This improvement came principally from higher profitability and the utilization of net operating loss carryforwards previously discussed.

Long-term debt (including current maturities) at November 30, 1994 was \$26.8 million, a decrease of \$5.5 million from May 31, 1994. Long-term debt represents 43% of long-term debt plus stockholders' equity at November 30, 1994 compared to 52% at May 31, 1994. At November 31, 1994, the Company had the ability to borrow an additional \$23.8 million under its revolving credit facility.

For the six months ended November 30, 1994, capital expenditures were \$6.7 million compared with \$3.5 million in the prior year period. The increase in capital expenditures was mainly due to the purchase of equipment to be used in IPC's new powder coating facility in Riverport, Kentucky.

The Company believes that funds available under its current bank facility and funds generated from operations will be sufficient to satisfy its anticipated operating needs and capital improvements for the next twelve months.

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PART II OTHER INFORMATION

Item 1. - LEGAL PROCEEDINGS

Certain litigation was described in the Company's annual report on Form 10-K for the year ended May 31, 1994. There have been no material developments in the described cases for the fiscal quarter ended November 30, 1994.

Item 4. - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders of the Company held on October 13, 1994, the stockholders considered and voted on: (1) the election of seven directors for one-year terms expiring in 1995 or until their successors have been duly elected and qualified and (2) a resolution proposed by the Board of Directors that the stockholders ratify the action of the Board of Directors in selecting and appointing Ernst & Young LLP as independent auditors for the Company for the fiscal year ending May 31, 1995.

All of management's nominees for directors as listed in the proxy statement were elected by the following votes:

<TABLE>

<S>	<C>	<C>
Cloyd J. Abruzzo	For	7,630,501
	Withheld	10,114
Jerry A. Cooper	For	7,630,501
	Withheld	10,114
Preston Heller, Jr.	For	7,630,480
	Withheld	10,135
James A. Karman	For	7,614,642
	Withheld	25,973
David A. Preiser	For	7,626,154
	Withheld	14,461
Jacques R. Sardas	For	7,618,135
	Withheld	22,480
Thomas F. Slater	For	7,630,451
	Withheld	10,164

</TABLE>

The proposal to ratify the appointment of Ernst & Young LLP as the Company's independent auditors was passed by the following vote:

<TABLE>

<S>	<C>
Shares Voted For	7,601,770
Shares Voted Against	28,581
Abstentions	10,264
Broker Non-Votes	0

</TABLE>

The Company did not file any reports on Form 8-K during the three months ended November 30, 1994.

<TABLE>
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EXHIBIT	EXHIBIT INDEX	SEQUENTIAL PAGE NUMBER
<S>	<C>	<C>
(11)	Statement re: Computation of Per Share Earnings	15
(27)	Financial Data Schedule	

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUDBURY, INC.
(Registrant)

By: /S/JACQUES R. SARDAS

Jacques R. Sardas
Chairman of the Board
and Chief Executive Officer

By: /S/MARK E. BRODY

Mark E. Brody
Vice President and
Chief Financial Officer
(Chief Accounting Officer)

Date: January 11, 1995

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<TABLE>

EXHIBIT 11 - STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

SUDBURY, INC. AND SUBSIDIARIES

<CAPTION>

	THREE MONTHS ENDED	
	NOVEMBER 30, 1994	NOVEMBER 30, 1993
	-----	-----
(In thousands, except per share data)		
<S>	<C>	<C>
PRIMARY		
Average shares outstanding	10,234	10,004
Net effect of dilutive stock options and other common stock equivalents - based on the treasury stock method using average market price	2,488	2,213
	-----	-----
TOTAL	12,722	12,217
	=====	=====
Net income	\$ 3,425	\$ 3,232
	=====	=====
Per share amount	\$.27	\$.26
	=====	=====
FULLY DILUTED		
Average shares outstanding	10,234	10,004
Net effect of dilutive stock options and other common stock equivalents - based on the treasury stock method using the quarter end market price if higher than average market price	2,488	2,254
	-----	-----
TOTAL	12,722	12,258
	=====	=====
Net income	\$ 3,425	\$ 3,232
	=====	=====
Per share amount	\$.27	\$.26
	=====	=====

</TABLE>

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2

<TABLE>

EXHIBIT 11 - STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

SUDBURY, INC. AND SUBSIDIARIES

<CAPTION>

	SIX MONTHS ENDED	
	NOVEMBER 30, 1994	NOVEMBER 30, 1993
	-----	-----
(In thousands, except per share data)		
<S>	<C>	<C>
PRIMARY		
Average shares outstanding	10,234	10,002
Net effect of dilutive stock options and other common stock equivalents - based on the treasury stock		

method using average market price	2,407	2,146
	-----	-----
TOTAL	12,641	12,148
	=====	=====
Net income	\$ 5,644	\$ 4,314
	=====	=====
Per share amount	\$.45	.36
	=====	=====

FULLY DILUTED

Average shares outstanding	10,234	10,002
Net effect of dilutive stock options and other common stock equivalents - based on the treasury stock method using the quarter end market price if higher than average market price	2,407	2,268
	-----	-----
TOTAL	12,641	12,270
	=====	=====
Net income	\$ 5,644	4,314
	=====	=====
Per share amount	\$.45	.35
	=====	=====

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